The MORTGAGE BANKER

VOL. IV—No. 1 JANUARY 1, 1942

What Suburban Shopping Centers Are Doing to Centralized Retail Districts

The author says that five—and only five—groups ought to have anything to say about halting decentralization

By **T. W. GROGAN**

WHAT effect has the development of the new suburban centers with adequate parking facilities upon the value and desirability of centrally located retail districts?

As I see it, the answer should be something like this: It is ruinous; it is permanent. It can never be overcome, but it *can* be retarded. It reduces municipal tax income, real estate equities, mortgage security and the profit of all downtown retail business enterprises.

These views are based on a general study of decentralization. I am thinking of all cities as one composite city.

Many papers, speeches and books have been submitted on the subject, many theories have been presented. Alarming figures have been compiled which I am purposely ignoring in this discussion because they are already well-known.

It has been said that "what people do not know about driving an automobile fills hospitals." I think that what we don't know about decentralization, or certainly have not known, has undoubtedly filled many suburban communities.

The outward movement of the various elements in cities, which means homes, stores, industries, amusements and centers of religion and culture, became evident in the past twenty-five years and was in a large measure caused by improved automobile transportation, roadways and utilities of all kinds plus increasing municipal taxation.

AS this paragraph is written, newspapers are reporting enemy planes over West Coast cities and it serves to focus attention on Mr. Grogan's assertion that he feels "very strongly that within a few decades it may be proven that decentralization will be a welcome blessing because of war." Mr. Grogan heads his own firm in Cleveland.

This problem was slowly recognized through its effect. Today the causes are thoroughly recognized and almost every large city is making a comprehensive study of the subject. City plan commissions have been organized, perspectives of the new "City of Tomorrow" have been made. A few housing developments have been created. Group meetings have been held to seek cooperative parking, street improvement, better thoroughfares, improved transportation and lower taxation. All this has been beneficial and has succeeded in retarding decentralization; but none of it, in my opinion, has realistically recognized the one all-important fact—that the day of ever-increasing population in large cities is over, except perhaps in the South and West. And in these, too, new centers have sprung up away from former business districts.

Many believe that decentralization is an excellent development for several reasons, some of them being:

Congested areas do not afford good working or living conditions. To the downtown worker, the dangerous traffic of the automobile, the crowded condition of street cars and buses, the noise and the impure air of downtown districts do anything but promote a happy and long life. They maintain that a large share

(varied, of course, in each city) of office tenants located in congested downtown districts could develop their particular business just as successfully in suburban districts. There, it is claimed, office tenants could live a happier life with improved working conditions, and provide greater convenience for all. Industries could definitely do more for employees, operate more smoothly and would be more appreciated by the local taxing authorities in smaller communities. As for homes, today's generation and their children have been educated to the advantages of suburban living. Generally speaking, any plan to reconvert this group will be useless.

I have listened with complete amusement to some groups discuss decentralization. For many years I have seen them organized to oppose a particular trend that had become evident, and affected them materially — always with the thought of protecting themselves and completely overlooking the fact that the trend was unconquerable; for instance: railroads vs. bus lines and trucks; independent retailers vs. chain stores. Instead of trying to terminate it they should have adjusted themselves to reality.

In this problem of decentralization, many engaged in mortgage lending have not only promoted it but have reaped the resulting harvest. Most insurance companies in the majority of larger cities have stricken out many city residential areas as dangerous and fought for loans in the suburban districts. The government has also accelerated decentralization by following the same policy not only in residences but in financing new industrial buildings.

I am speaking now of conditions as they existed in normal times. The effect of the Victory effort upon population areas is difficult, if not impossible, to estimate. Mushroom towns adjacent to new defense plants have sprung up in locations which a few months ago were isolated farm lands. Thousands have been attracted to big cities to take employment in factories which had been running only partially or were completely shut down for years.

What the ultimate result will be as to population trends during the emergency and more particularly after it, is difficult to analyze; but, in my opinion, the ultimate result will be harmful to congested cities and more particularly to the centrally-located retail districts.

Further decentralization of business areas will probably stop, but only temporarily, because of the inability to obtain needed materials for new construction. In the meantime, thousands of new dwelling units are being promoted by the government in outlying communities and many more thousands are anticipated. These sections will be potential locations for business structures as soon as priority restrictions are lifted.

Many believe that the requirements necessary to stop decentralization are so numerous, extensive and complex that it is impossible to accomplish anything. The point is admittedly controversial. They advance the opinion that too many factors are involved to successfully overcome decentralization. They say we can never hope to coordinate them, and submit the following as proof:

". . . almost every large city is making a comprehensive study of decentralization. City plan commissions have been organized, perspectives of the new City of Tomorrow have been made. A few housing developments have been created. Group meetings have been held to provide cooperative parking, street improvements, better thoroughfares, improved transportation, lower taxation . . . but none has realistically recognized the one all-important fact—that the day of ever-increasing population in large cities is over."

—T. W. Grogan.

If you can curb man's natural inclination to obtain a better home or a larger plot of land for his family, and if it were practical to transform old and blighted neighborhoods into beautiful and thriving communities, replace worn-out homes with new, provide suitable shelter for the increasing negro population and poverty-stricken whites who will be dispossessed in the process; and, further, modernize all homes before they become obsolete, restrain street railway or bus companies from extending service beyond a limited distance; influence the federal government to spend money exclusively in rehabilitation programs in the older communities instead of new construction in outlying sections; then prevail upon the large cities to restrict further extension of sewer and water services and the utility companies from extending light, power and telephone lines, *then and only then can there be an effective stop to decentralization.*

Others maintain that rapid-transit lines can overcome decentralization, but this has not been true in cities with subways and elevated electric roads. These facilities apparently *encourage* decentralization rather than prevent it. This is also true of the new super-highways which provide free-way motor travel from the heart of the cities to suburban communities in remarkably short time.

As I see it, decentralization like death and taxes, will always be with us. In Cleveland, just forty years ago, West Superior Avenue was the main shopping center. Euclid Avenue later became the hub of the business district. Today West Superior Avenue has little retail value.

Property owners and mortgage institutions must necessarily take this factor into consideration. It is their responsibility to buy and loan with the greatest caution, keeping in mind at all times the potential earning capacity of the property and the changes which shifting populations are bound to create.

Suppose some plan could be devised and placed into effective operation which would again attract all buyers to the central districts from the outskirts of the big cities and thereby force the closing of the business establishments located therein — what would happen to the loans you have made on these properties and surrounding homes and how could you reconcile the loss?

In my opinion, a group that should study the steps to be taken to overcome decentralization should be composed only of the following:

(a) Municipal authorities seriously affected by decrease in tax income.
(b) Owners of only downtown real estate.
(c) Mortgagees and equity owners of only downtown real estate.
(d) Operators of downtown stores.
(e) Industrial operators in city districts having no outside plants.

This would eliminate all individuals and corporations who wanted to have their cake and eat it, too. To the above

(Continued page 4, column 2)

The Capitalization Rates I Suggest for Three Types of Income Property

The three being suburban hot spot retail stores leased to chains and independents and modern apartments

HERE an institutional lender and mortgage banker set forth their views on what both of them declare early in their discussions is one of the most controversial subjects in all appraising—capitalization rates. They are concerned here with the proper rates to use for three types of income property—new and modern unfurnished apartments with 12 units or more, suburban "hot spot" retail stores leased to responsible chains and similar locations leased to local merchants.

This is the analysis of the subject by Wallace W. True, assistant manager, The Equitable Life Assurance Society of the United States, New York:

"Few things in the whole realm of the appraisal process are more controversial than capitalization rates. They are, or should be, determined by the appraiser with a full knowledge of a number of factors each of which is, to some extent, controlled by the capitalization rate chosen. These factors are:

1. The so-called pure interest rate, that is the hiring rate for money without risk.
2. A penalty for non-liquidity of the investment.
3. An addition to the rate for the insurance of the risk.
4. A still further addition to the rate based upon a consideration of the continuity of such factors as successful management, operation, location, etc.

"As to the specific problems, it seems to me that any capitalization rates chosen must reflect directly or indirectly the factors just mentioned and as well an integration of these factors with the market price of the type of property being considered.

"Market price in income property is usually a multiple of either the gross or net from the property. It varies widely from as little as four times to as much as twelve times gross and is a further reflection and integration of the factors mentioned.

Property Leased to Chains

"Generally speaking, new and modern apartments of twelve units or more sell at from 5½ to 8 times annual gross. Since most new apartments will convert better than 50 percent of its gross to net, assuming normal occupancy and a normal tax situation, the capitalization rate after providing in operating expenses for all charges including a reasonable allowance for depreciation, should probably be in the order of 6½ to 7½ per cent.

"Suburban 'hot spot' retail stores leased to responsible chains are being traded very actively. There is a good market for this type of property over the country on a basis where the over-all yield is based on net 6½ to 7½ per cent.

"Therefore, it would appear that the capitalization rate is pretty well established by the market price for this type of property. In appraising this type of property, however, it is important to remember that value is predicated upon the lease or leases of the property, their continuity and the integrity and credit of the leasing corporation. In other words, it is easier to sell a Woolworth lease than it is to sell some of the other chain leases and a variable of one half to one and one half per cent may very well be allowed, depending on the credit.

"It is also important to remember that most of this type of property which is sold, and for which apparently a market value is established by the sale, is sold on a basis which gives full recognition to the terms of the financing. The return of the equity owner, assuming a liberal mortgage with relatively small amortization, is usually on the order of 8 to 9 per cent after amortization and interest but before depreciation on the improvements.

"Suburban 'hot spot' retail stores leased to local merchants do not ordinarily command quite so good a rate. I would say that in these cases the minimum rate of capitalization would be 7 per cent with a maximum of probably about 8½ per cent. These properties are not as salable as properties leased to chains but because of their proximity to chains and their availability for chain occupancy there is a considerable market for them."

And this is the analysis of the subject by Charles H. Sill, executive vice president, Drennan & Sill, Inc., Detroit:

"The variety of opinions expressed at recent MBA clinics clearly indicate that any attempt to establish fixed rates in advance for any specific property is difficult if not impossible.

"I do not think one knows what capitalization rate should be used until he has inspected the property under consideration and formed an opinion of the probable trend of neighborhood, market activity, condition of structure and other factors affecting its stability. There is little uniformity between separate parcels of real estate. Perhaps some day we may have reliable organizations that will classify real estate investments similar to the concerns that now rate bonds from triple A to X Y Z.

"There are certain factors which are occasionally used to make up capitalization rates for various types of property. The general practice seems to be to build up the rate about as follows:

1. Safest investment, 2 to 3 per cent.
2. Penalty rate for non-liquidity 1 to 2½ per cent.
3. Investment service rate, ½ to 1½ per cent.
4. Risk rate, 2 to 5 per cent.

"These are the principal items that make up a capitalization rate but there

are many other factors which should be taken into consideration.

"Obviously the safest investment should enjoy the lowest rates and therefore form the basis on which any other type of capitalization rate can be built. In this item I have in mind United States government bonds.

"The penalty rate is set up because a real estate investment must suffer some penalty for non-liquidity. There is no exchange or ready market where an owner can dispose of his real estate investment immediately. It is also difficult to divide and dispose of a partial interest in a real estate investment in the same manner that one would dispose of a block of bonds or stock.

"The investment service rate is that allowance which should be made for additional demand upon the investor in managing or supervising a real estate investment. This rate does not contemplate detailed management of the real estate, but represents an allowance for additional bookkeeping, checking taxes, special assessments, insurance, etc. that an investment of this type requires.

"The risk rate is an important one as it deals with so many different factors such as social and economic trend of neighborhood, suitability of subject property for institutional loans, market activity for the type of property in the neighborhood under consideration, transportation and all other utilities necessary for the permanent maintenance of the district.

"The safest type of investments are usually the easiest sold even though they bear the lowest capitalization rates. In Detroit we have a ready market for retail stores leased to responsible chain organizations with assets of five millions or more and this statement can be emphasized if the property in question is located in the newer suburban hot spots. These properties are readily sold on a 7 per cent basis. In view of this demand I use a 7 per cent capitalization rate based on the net return of the lease.

"Stores leased to independent merchants located in these same suburban developments are a different problem because in most instances they do not enter into the long term leases that our large national chains prefer, and are generally dependent upon the ability of one or at least a very few individuals. Their capital structure is usually small and soon depleted during a period of business depression. Therefore, in approaching the economic value of this type of property and determining the correct capitalization rate to be used, I prefer from 7 to 9 per cent after making provision for depreciation of the structure. The probability of the utility of this property by other merchants should failure occur as well as other factors must be considered.

"It is my opinion that an unfurnished apartment building in Detroit located in a section where social, economic, racial and religious characteristics are most desirable, and of a design and construction insuring long physical life, would justify an 8 per cent capitalization rate after making provision for depreciation of structure. I realize that in some cities a lower rate might be justified and possibly a higher rate in some other sections of the country.

"Shopping habits are changing so rapidly that even the management of some of our largest chains cannot forecast the distant future for retail centers. One of the largest national chains has closed six of their stores in Detroit in the last year and a half due to the rapid change which has taken place because common utility of the automobile has created a demand for ample parking facilities. It is therefore obvious that retail stores without parking facilities must suffer a higher capitalization rate.

"Modern kitchens, modern plumbing, ventilation and insulation, as well as social and economic changes are vitally affecting apartment house values. A careful study of these factors is, in my opinion, a basic consideration in fixing capitalization rates, especially when appraising for long term loans. In my opinion stability of neighborhood is more important than physical stability of structure. Fluctuating interest rates and the general supply of investment funds must also be kept constantly in mind as these items are likewise important factors in determining current capitalization rates."

T. W. GROGAN'S ARTICLE ON CENTRAL DISTRICTS

(Continued from page 2)

mentioned groups decentralization is ruinous. All others are, in some respects, the *promoters* of decentralization and are the competitors who have created this problem.

I am not critical of the groups that have promoted decentralization. I am a realist who recognizes the trend and feels that those who have not or do not recognize it are adopting a rather costly policy. I cannot, however, understand the concern over decentralization by individuals or groups who are enjoying its benefits.

We have been told that European cities as compared to our own have better control of decentralization, but the conditions are vastly different. To begin with, private ownership of motor cars is insignificant by comparison. Then, too, they do not have the space for expansion as in this country. They are, therefore, forced to remain more or less static. On the other hand, Americans have been constantly moving to less populated areas. This has been true since the days of the covered wagon.

Our nation was founded on a democratic system protecting capitalistic operation. More power to competitors of downtown districts in the developments of their suburban communities. This should test the ingenuity of owners and managers of central properties. Let them learn by the experience of cities of yesterday what might become of their cities tomorrow, without intelligent planning and constructive action. Let the owners of equities, mortgagees and the tax authorities learn also that this is a competitive nation and that their existence is controlled by the rule of the survival of the fittest. This is as it should be.

I feel very strongly that within a few decades it may be proven that decentralization will be a welcome blessing because of war. The more America is decentralized, the better it might be for strategic defense. This is a fact that all of us should recognize and by mutual cooperation prepare to plan for our best interests. Present and future downtown building owners should plan now for future wars (but first, let's win this one).

It is impossible for me to believe that the operation of real estate is any different than the operation of any other business. The efficient and strong thrive; the inefficient and weak die. If a large retail district is declining, the strong will prosper whereas the weak will fail; and the same will apply to a suburban community. Don't forget that there will be decentralization of the present decentralized districts.

Eight Effects of the War on Mortgages and Real Estate

New construction methods and materials is one development to expect after the emergency

By DR. IRVIN BUSSING

DURING recent months I have been studying the defense housing program and the effects the war may have on mortgages and real estate.

I have selected here eight which I feel are important at this time.

I

The war and Victory program are likely to accelerate the decentralization of American cities.

Decentralization of population and industry has been going on for years. But the present emergency is having the effect of augmenting the trend rather than arresting it. There are many reasons for this and here are a few:

(1) To qualify as defense housing the selling price of a house may not exceed $6,000, or its rental exceed $50 per month; to qualify under Title VI of the National Housing Act the limit of the mortgage is $4,000. It is difficult for a private builder to put up a conventional type house for $6,000 within the limits of many cities, and Title VI housing must be on still cheaper land to come within the law.

Not only is *cheap* land necessary, but relatively *large plots* are desirable also, for these enable builders to take advantage of the economies of large-scale production.

Thus, privately constructed defense housing requires cheap and relatively large areas of land, and these, by and large, are available only in the outer sections of cities or outside city boundaries.

(2) A second factor affecting the location of defense housing and promoting dispersion or decentralization during this war period is the tax position of the new house. New houses are assessed for tax purposes at about cost; but old houses within cities, as we all know, are commonly assessed in excess of reasonable value. An individual can often occupy a new house in a new area at less than he can rent an old house in an old area because of the tax differential. About the only influence which will counteract this is an appreciable increase in the cost of construction; but new materials and new methods, as I shall indicate, may in turn offset rising material and labor costs.

THIS is one of the best of the brief analyses we have seen of what the war means to mortgage banking and real estate values. You may not agree with all the conclusions reached but we suspect that the eight points Dr. Bussing takes up are the most significant to look for. The author is director of research for a New York trust company.

Not only are taxes in new areas relatively lower, but they will tend to continue so in some of these communities because many of the utilities necessary for city life such as sewers, streets and water supply are being installed by the federal government as part of the Victory program. The cost of these services will in this manner be spread over the entire country in the form of national debt rather than upon the local community in the form of municipal debt.

(3) The effect of priorities will be to limit housing predominantly to low-cost housing in defense areas. Since such housing must of necessity be placed in areas where land cost is low, it follows that *practically all residential construction during the war will take place outside congested urban centers.* (The conversion of single family to multi-family units in existing neighborhoods would materially counteract this tendency. But so far conversions have been unimportant.)

The average annual *family* income of defense workers today is about $2,000, while 70 per cent of such families have less than $2,000. If it is economically unwise for a person to pay more than double his average annual income for a house, or more than 20 per cent for his rent, then $4,000 is the maximum average purchase price defense workers should pay for a house, and $33 per month is the average limit for rent. Most of them should not pay this much.

(4) The last influence tending to accelerate decentralization of cities is the deliberate plan of the federal government to spread out the targets of war. In the future the federal government will have a great deal to say about plant location and population concentration. Great Britain has set up such controls, and Germany did so years ago. In the interest of military defense, scattering of plants will result; and for the safety of the civil population, dispersion will be encouraged.

II

The Victory housing program is greatly expediting the development of new construction methods and materials, including prefabricated housing units, and these are likely to have far-reaching, long term effects on residential real estate and on the policies of home financing institutions.

For a number of years efforts have been made to develop factory-built prefabricated units and precision materials which could be assembled on the building site at a considerably lower cost than conventional (one might almost say

medieval) methods entail. Some progress has been made prior to the war, but the bottleneck was in the tooling and research departments where insufficient funds were available to solve some of the problems of materials and methods.

What the Future Holds

Now this is changed. The necessity for speed in providing defense housing has greatly expanded the demand for prefabrication. The industry has gone headlong into a program of development which is making it *a major factor in the housing field*. It is possible that prefabrication, new methods and new materials in the home construction field will develop as extensively in the next twenty years as the motor car industry did in the last.

About 9 per cent of publicly-financed defense housing assigned, under contract or completed, is prefabricated, and the proportion will undoubtedly increase. The FHA, moreover, will insure mortgages on prefabricated homes of approved types.

Prefabricated houses are not necessarily demountable. But it is simple and advantageous to make them demountable, and we may confidently anticipate a substantial increase in these types. About 70 per cent of the prefabricated houses ordered by the Federal Works Administration to date are demountable, and FHA now recommends demountables where there is not likely to be a post-war use for them in the areas where they are being erected.

Another impediment hitherto to the development of prefabricated housing has been the attitude of the building trades unions of the AF of L. The CIO, however, which has been trying to get a foothold in the building trades, will assemble prefabricated housing units while the AF of L tends to hold aloof. Moreover, various unions have come to realize that the restrictive rules of the AF of L are simply denying adequate low-cost housing to their members and that something must be done about it. The issue is not settled, but prefabricated housing units and materials are being assembled as never before; and in the interest of national defense this jurisdictional dispute will sooner or later be settled and it is likely that the settlement will carry over into the post-war period.

A prefabricated demountable house, consisting of four rooms and bath, cost $2,900 in July, 1941, excluding land and utilities, at Indian Head, Maryland, while at the Martin bomber plant near Baltimore a very attractive, partially prefabricated four and one-half room house developed by Robert L. Davison of the John B. Pierce Foundation is being provided at an estimated cost of $2,500 to $2,700 which includes profit and overhead, tile bath, plumbing, central heating, wiring, electric refrigeration, water heater, kitchen stove and venetian blinds but not land, grading and utilities. If it were not for the urgency of the present situation and the lack of concern about cost, these houses, it is authoritatively stated, could be provided complete (ex land and utilities) at $2,000 by private builders.

Next to food, shelter is the most important item in the family budget. Anything which cuts down the cost of housing not only raises the standard of living but also provides a possible source of individual savings.

III

The low prices just referred to are the result of large-scale financial methods as well as new materials and large-scale mechanical processes. More and more, as time goes on, the most desirable mortgage business will gravitate to those financial institutions and combinations of them, which are capable of financing large-scale building operations.

At the Martin bomber plant the plumbing assemblies for these $2,500 houses are constructed on the site. The roof rafters are cut on the site with the use of precision machinery. The foundation and chimney are assembled on the site. This is not shop prefabrication in the strict sense but fabrication on the site through greater use of machine methods and standardized materials, with a consequent reduction of unit cost. This is possible only where many houses can be put up on a line of assembly, that is through the use of large-scale methods, and these are dependent not only upon large areas of land but also on large-scale financial assistance.

IV

To the extent that the supply of low-rent, low-cost dwellings is increased, the encroachment of low income groups upon better quality residential areas will be reduced and one cause of blight to that extent removed. The logic of this is as follows:

The supply of housing in this country has come in predominantly at the top in the past. The failure of private industry to provide adequate low-rent facilities has thus created a constant pressure from the low-rent groups upon other neighborhoods. This migration is one of the causes of blight. Some people have accordingly suggested that barriers or greenbelts should separate neighborhoods to prevent the encroachment of one economic group upon the neighborhood of another. But if adequate low-rent housing is not provided, physical barriers will not solve the problem. The problem is to prevent the migration by correcting the cause of it.

Private Industry's Role

Of course I do not mean to imply that blighted neighborhoods can be prevented by this means alone, but it is undoubtedly one of the factors to be reckoned with.

If labor and financial costs in the housing field are reduced in the future as much as some stages of the fabrication cost have already been reduced, private industry will be able to supply housing in the future to a much larger market than ever before.

V

It is unlikely that defense housing will be thrown on the market with such a depressing effect on real estate after this war as it was after the last. Hasty liquidation after the last war brought only 37c on the dollar for houses of the Emergency Fleet Corporation and the U. S. Housing Corporation.

The 1940 Lanham Act, however, may well prevent a recurrence of this, for it provides that " . . . property acquired or constructed . . . shall be disposed of as promptly as may be advantageous under the circumstances and in the public interest" when the emergency ceases to exist.

Furthermore, the USHA, the Farm Security Administration and the Forestry Service stand ready to take much of the public housing thus far provided where the location is compatible with the contemplated use. As to defense housing privately owned, there is at least some possibility that the HOLC would

(Concluded page 7, column 2)

The MORTGAGE BANKER

Published Semi-Monthly by the
MORTGAGE BANKERS ASSOCIATION OF AMERICA
111 West Washington Street, Chicago

JANUARY 1, 1942

WHAT'S AHEAD FOR US?

Victory is ahead for the United States. No true American can doubt that fact. But what is ahead for mortgage banking?

All MBA members knew that once this country became an active belligerent mortgage activities would be somewhat affected. Construction loans have declined and competition for refinancing loans has become keener. But judging solely from reports from members from all parts of the country mortgage banking is going to continue as a vital active part of the national economy. We won't try to editorialize on that further but we hope to bring you, in the issues to come, some articles by successful mortgage men on the general subject of *what will the war mean to mortgage banking.*

With deep sorrow we announce the death of Mr. C. B. Merriam of Topeka, Kan. on December 9th after a brief illness. In the past Mr. Merriam was active in MBA affairs and served on the board of governors in 1928-1929. At our Cleveland Convention in 1937 he delivered one of the principal addresses. In recent years he was a director of the RFC in Washington, a member of the board of the Metropolitan Life Insurance Company and chairman of the board of the Central Trust Company of Topeka. J. E. Merriam is now president of the latter institution and in charge of its mortgage activities.

step in if necessary to prevent hasty liquidation. It is probable, therefore, that liquidation after this war will be much more orderly than it was after the last, and thus the market will be less disturbed.

VI

In addition to the well known reasons for the amortization of mortgages at least three more reasons grow out of the war. These are:

(1) Borrowers, especially home owners, are able in many instances to pay more amortization today than they are paying voluntarily.

(2) In the interest of national defense, consumer purchasing power should be reduced by every reasonable method. If this is not done commodity prices will rise and chaos will result. Before this occurs a forced saving plan might be instituted. In the common welfare, therefore, individuals should be encouraged to pay their debts during this tragic era so as to safeguard themselves from less desirable expedients.

(3) Borrowers should cushion themselves today against the post-war shock of tomorrow. One way of doing this is to get out of debt now through amortization.

VII

An important question is the effect the war and Victory program is likely to have on the value of city real estate. While this is one of the most important phases of the question it is also one which involves a great deal of speculative reasoning. The following conclusions seem warranted:

(1) Priorities will certainly limit non-defense construction and thus tend to make existing buildings more valuable, provided there is a use for them, operation is not too expensive and the rate of depreciation and obsolescence does not exceed the rate of appreciation.

(2) While many buildings in cities will tend to increase in market value, this tendency may be offset by the long term trend toward lower land values in congested urban areas—a trend which the war is certainly not arresting, and in my opinion is hastening.

Among *low-rent, residential properties* two additional factors apply. These are (a) improved building materials and standardized methods of construction. These are tending to reduce the cost of shelter for low income groups, and by the principle of substitution will have a depressing effect on the market value of *existing* low-rent dwellings. (b) There is the imminent possibility of rent limitation laws for the protection of low income groups.

As far as institutional ownership is concerned *it is difficult, therefore, to see any reason for changing the current policy of orderly liquidation of owned real estate.* Instead of raising prices, the prudent policy today would seem rather to seek larger down payments and better terms, which may be obtainable as a result of the war. Disposition of real estate on such a basis is more likely to constitute a bona fide sale than an interlude between foreclosures.

VIII

No discussion of the effects of the war on mortgages and real estate would be complete without some reference to probable post-war programs.

The shift from war to peace will create a terrific dislocation of labor. Programs of action should be developed *before* this crisis comes in order to meet it effectively. One major program, above all others, which is ripe for exploitation, is that of rehabilitating the blighted areas of American Cities. This has been overdue and will be mandatory after the war.

Many influential people are preparing for this post-war attack on blight. One association has published a proposed plan and a group of planners in Washington has circulated another proposal. Methods will be found to clear away outmoded and dilapidated buildings, replan neighborhoods and provide more parks, playgrounds and parkways.

To be effective the plans must be ready the moment the last gun is fired. To have the plans ready we should begin to plan now. Areas of demolition should be agreed upon by public and private groups working cooperatively. No new money should be invested in existing buildings in such areas for this would only be wasteful, and inimical to the ultimate objective. If some of the buildings are unsafe for human habitation it is not inconceivable that within a year or two it will be possible to demolish such structures and provide temporary demountable houses in their place if that appears prudent.

In any event, urban redevelopment is a part of our job. If we don't help, the government may do it all.

Is There a "Youth Problem" in Mortgage Banking? Yes—and No, Say These Men

Has mortgage banking a "youth" problem? Is the business growing old? Do fewer young men enter the field than ought to—and if so, what's the reason?

These questions led off this article when it was in process of preparation before December 7th. Today there isn't the same meaning behind them as when they were written. Of course mortgage banking has a youth problem today and it's primarily one of losing many ambitious eager young men who will now be going into the armed forces to do their bit in crushing the greatest menace this nation has faced since revolutionary days.

What prompted our questions in the first place was a desire to learn what some representative members thought in view of MBA's plan to establish in 1942 a school of mortgage banking to which it was thought many young men would be attracted. Further details of it will be announced soon; but in the meantime we have asked the presidents of several MBA Chapters for their views. They are given here:

First, let's ask W. Laurence Smith, Kansas City MBA president:

"I believe that proportionately fewer young men are entering mortgage banking than is the case with banking and investments but I think the reason is that they have not been able to see the profit or future in it that they could in some other lines. Of course, it must be admitted that, to a certain extent, the same thing applies to banking and investment banking."

And from Luther M. Miller, Oklahoma MBA president:

"One reason who so few young men enter mortgage banking is because most positions open to them are as solicitors on a commission basis. Many of them, with little or no experience, don't like the commission basis. Of course, most young men who go into the field start in property management and insurance departments."

Frank J. Mills, Ft. Wayne MBA president, likes the idea of an MBA school. He says:

"It would be a fine thing to establish a school where employees might be trained in mortgage financing."

O. G. Gresham, Birmingham MBA head, writes:

"Fewer young men are going into mortgage banking. For one thing, fewer opportunities present themselves because of present day practices. Almost anyone, it seems, can become a mortgage broker these days. For example, in Alabama we have no laws of any kind to protect mortgage banking as representatives of fire and life insurance companies or real estate brokers are protected."

T. A. Blakeley, Texas MBA head, has an entirely different view:

"On the contrary, it appears to me that many young men are entering the mortgage loan industry and many more would like to if there were vacancies."

According to Wallace Moir, Southern California MBA president:

"I don't think fewer young men are entering mortgage banking than other investment lines." He added that he does not believe an MBA school of training would be practical now.

According to Raymond Haizlip, Northern California MBA:

"There isn't any scarcity of young men in mortgage banking today. I believe the best schooling they can secure is actual experience."

And according to W. Robert McMurray, Portland MBA:

"I think the reason more young men do not go into our business is because there is a lack of sufficient school training available to them."

In the opinion of Charles H. Sill, Detroit MBA president:

"I think there is a good field for young men in investments and mortgage banking but most of them are handicapped because of lack of proper education and training for the positions open to them. I think MBA ought to encourage in every way possible the inauguration of short courses in high schools and colleges that would help in this regard. The valuable material already assembled at MBA Clinics and other data which will be developed as time goes on constitutes a good base for many of these courses."

In the opinion of C. P. Keenan, Spokane MBA:

"A greater interest is being evidenced in the mortgage business by young men now that ever before. This is no doubt due to the fact that real estate is now enjoying a prominent place in civic activities and banking investments."

In the opinion of Norman H. Nelson, president, St. Paul MBA:

"I think young men are entering the mortgage business in proportion to the volume available. Mortgage men here haven't made loans in a volume comparable to other cities because of the strength of a certain type of competitor."

According to Frank H. Jackson of the Philadelphia MBA:

"There are fewer young men available for the mortgage business because colleges and business schools do not provide sufficient instruction. College graduates have no conception of the opportunities and openings available in the mortgage field."

Says Clifford T. Harvuot, president, Cincinnati MBA:

"It is very difficult to find the right kind of mortgage loan solicitor. Possibly we have reached the stage where it would pay to provide some kind of school training so that young men entering this field could clearly see the scope and possibilities of the business."

MBA COMMITTEE SET UP THIS YEAR IS THE LARGEST SO FAR

Never before in MBA history have so many interests and activities been represented by Association committees as this year. Nearly 300 MBA members have been named by President Frederick P. Champ to serve on these committees which include: Executive, Accounting, Constitution and By-laws, Convention Program, Defense Housing and Priorities, Directory, Education, Code of Ethics and Fair Practices, Farm Loan, Federal Legislative, FHA, Finance, Insurance Company Advisory, Inter-Chapter Relations, Membership, Cost of Obtaining New Business, Sources of Obtaining New Business and Advertising Policies, Nominating, Public Housing, Publicity, Resolutions, Servicing Costs, State and Local Associations, Tax Procedure on FHA and Other Loans, Uniform Practices to Compile Standardization of Forms and Mortgage Procedure and Ways and Means.